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KHRUSHCHEV ON SHORTCOMINGS IN SOVIET CONSTRUCTION



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KHRUSHCHEV ON SHORTCOMINGS IN SOVIET CONSTRUCTION

In his speech of 24 April to the RSFSR conference of industrial and construction workers, Khrushchev expressed his exasperation at the persistence of shortcomings in construction programing in the USSR. 1/ "The increase in unfinished construction is a swamp," he complained, "and we are dragged into this swamp by certain comrades who begin more and more new construction sites indiscriminately The more construction sites there are in the process of construction, the less materials and equipment every construction site will receive. The advantage lies not in the fact that we have a large number of construction sites where work has started, but in an accelerated pace of completion of projects." He criticized both Novikov (Chairman of the State Construction Committee, Gosstroy, USSR) and Lomako (Chairman of Gosplan, USSR) for "deficiencies in their work [and] the disorder in construction" and called on Ustinov (Chairman of the Supreme National Economic Council) to occupy himself with the problem. Immediately thereafter, Chairman Novikov canceled his plans to visit the US and told Ambassador Kohler that Khrushchev had put him personally in charge of completely reworking the present construction plans. 2/

1. Defects in Construction Programing

Construction programing is one of the most intricate and difficult problems faced by Soviet economic planners. There are more than 100,000 state construction projects underway in the USSR, and the supply of construction resources (building materials, manpower, and equipment) is insufficient to meet the requirements of all projects simultaneously. Without adequate control measures, the supply of construction resources tends to be allocated among the many projects in accord with a Russian proverb: "Each sister gets one earring." Construction projects in the USSR, therefore, generally take considerably longer to complete than would otherwise be necessary, and the inefficiency is reflected in higher costs. As the construction effort has increased

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rapidly in size and complexity in recent years, the Soviet system of construction programming has become more and more inadequate to the task. The cost of such inefficient programming thus has reached impressive proportions in terms of additional production forfeited. Khrushchev, in a series of statements, has shown that he has long understood this problem. He has not yet developed a solution, however, that satisfies both the requirements of the situation and the tenets of the Communist system.

With the supply of resources insufficient relative to the number of construction projects underway, Khrushchev has centered his attention largely on two kinds of corrective policies: (a) increasing the supply of construction resources and (b) concentrating the available supply of resources by reducing the total number of projects on which construction is continued. The first policy would permit an increase in the total volume of construction performed, acceleration in completion of projects, and reduction of the cost of construction without reduction in the number of projects underway. The second policy would permit accelerated completions and lower cost of construction without requiring an increase in the supply of construction resources or in the total volume of construction performed. The two policies are not mutually exclusive, but Khrushchev from time to time has shifted his attention from one to the other.

In his speech on the U-2 incident in May 1960, Khrushchev also issued the warning note that if development of the construction materials industry were not accelerated, it could become a bottleneck for the over-all investment program. In spite of such warnings, however, the rapid growth in the volume of construction work generally has outstripped growth in construction materials (see the table). The resultant shortage of construction materials and the noticeable deterioration of the situation in 1960 must be accounted the major factor in holding the rate of growth in construction work to 3.5 percent and 5 percent in 1961 and 1962, respectively, compared with an average annual increase of 14 percent during 1956-60. The sharp deceleration in growth of production of construction materials since 1958 is largely the result of inattention to the requirements of balanced growth. Production of precast concrete

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components (columns, girders, floor and ceiling slabs, and the like) has been emphasized strongly in recent years, but, at the same time, necessary increases in production of other important construction materials such as brick, lumber, and steel structurals have been neglected. In 1961, for example, production of lumber was slightly less than in 1960, and production of construction brick was only 3-1/3 percent greater than in 1960.

In his report to the 22d Party Congress in the fall of 1961, Khrushchev diverted his attention from the 20-year program for economic development to some pressing current problems, particularly the vast panorama of unfinished construction projects evident throughout the USSR. Criticizing the shortcomings in construction, Khrushchev observed: "Apparently we should go so far as to stop the starting of new enterprises [projects] for some period, say for a year, and direct all the resources that accumulate during that period to the swiftest completion of construction projects already underway. Exceptions can be permitted only for especially important projects, and only by decision of the Union government." Khrushchev hinted that additional steps might be taken and noted that a decree on the schedule of priorities in capital construction already had been passed. The major intent of the decree was to strengthen the system of priority projects, bring the construction program into line with available resources by reducing the number of new starts in construction, and reduce the volume of unfinished construction.

The reaction was fast and vigorous. Some republic plans indicated that the number of unfinished projects on which construction would be continued during 1962 would be reduced substantially. The plan for the RSFSR in 1962 provided for the start of construction of only 159 major projects compared with 429 such new starts in 1960 and 436 in 1961. 3/ In spite of the aura of reform, however, it was difficult to reduce the number of projects, to coordinate deliveries of materials and equipment, and to limit work on the large number of minor projects. Khrushchev complained in April 1963 that Gosstroy and Gosplan had failed to review proposals to eliminate about 2,500 projects, with the result that financing of these projects was undertaken after all. In reviewing the lists of approved projects, province and district Party committees cut back only

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a small number of the total projects subject to their review. As of April 1963, more than 100 of the most important projects that were to have been completed in 1962 still had not been supplied with all their equipment, and the plan for construction work on the especially important construction projects suffered a shortfall in 1962 substantially greater than the shortfall at lower priority projects. In view of these and other difficulties in implementing Khrushchev's call for reducing the number of projects and concentrating on completions, it is not surprising that the volume of unfinished construction grew disproportionately again in 1962 (see the table). Awareness of the failure to resolve many of the shortcomings in construction programing was a major factor in the extensive reorganization of construction that was started in November 1962.

2. Organizational Changes and New Appointments

Under this reorganization, construction was set up as an independent branch of the Soviet economy. Gosstroy, USSR, was reorganized into a union-republic organ, and Novikov was appointed its chairman. State production committees for construction were established subsequently and subordinated to it. 4/ The chairmanship of Gosstroy, USSR, is now a distinctly more responsible and powerful position than it was before the reorganization, when its role was largely staff-advisory. At the November Plenum, Khrushchev argued strongly for establishing Gosstroy, USSR, as the operative head of the construction industry and for making it responsible for bringing the construction program into line with available resources. 5/ The subsequent decree on the reorganization was more restrained and ambiguous 6/ in indicating responsibilities that already had been assigned under the decree of October 1961. Khrushchev's radical reorganization of the functions of Gosstroy, however, eventually was sustained.

Thus, as Khrushchev so clearly indicated, Novikov is now in the direct line of fire in the battle to achieve more order in construction programing. The prospects for success, however, are not good. Frequent decrees, public exhortations, reorganizations of construction, and increasing centralization of decision-making in construction since 1955

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have yielded an uneven record of efficiency in the allocation of investment resources. Most disturbing to the Soviet leadership is that in spite of the system of centralized control over "especially important" projects that was initiated in 1960, the backlog of unfinished projects increased disproportionately in 1961 and again in 1962. The emphatic discussion of punitive measures in Khrushchev's speech of 24 April strongly suggests that further changes in personnel and organizations will follow if improvement is not soon evident.

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Table

USSR: Comparison of the Volume of Construction Work Performed
with the Volume of Unfinished Construction and with Production of Construction Materials a/
1955-62

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
Volume of construction work performed (billion rubles) <u>b/</u>	10.0	11.3	12.9	15.0	17.0	19.3	20.0	21.0
Volume of unfinished construction (billion rubles) <u>c/</u>	15.0	16.0	17.6	17.5	19.0	21.4	24.8	27
Volume of unfinished construction relative to the volume of construc- tion work (percent)	150	142	137	117	112	111	124	129
Index of production of construction materials <u>d/</u>	100	107	122	142	163	179	190	196
Index of the volume of construction work performed	100	113	128	150	170	193	199	209
Ratio of the index of construction materials to the index of the volume of construction <u>e/</u>	1.000	0.949	0.954	0.948	0.957	0.927	0.952	0.937

a. All value data are in adjusted prices of 1 July 1955. Calculations are based on unrounded data.

b. Construction-installation work performed under the state sector of the economy, excluding private housing and collective farm construction activities.

c. End-of-year data. The volume of unfinished construction is defined roughly as the volume of investment in place at unfinished projects that have not been commissioned as operative. The largest component of unfinished construction in the USSR is construction-installation work, which accounts for approximately 80 percent of the total; equipment installed or in the process of being installed in unfinished projects accounts for about 10 percent; the remaining 10 percent is in other expenditures connected with unfinished projects.

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Table

USSR: Comparison of the Volume of Construction Work Performed
with the Volume of Unfinished Construction and with Production of Construction Materials
1955-62
(Continued)

d. The index is in terms of value added in production and covers about 33 of the most important construction materials used in construction (the data for 1961 and 1962 are based on smaller samples). The index, therefore, is not strictly a production index. Such a material as steel has many important uses in addition to its use in construction, which requires that an index of the steel used in construction, rather than simply production of steel, be incorporated in the index of construction materials.

e. Although such factors as export and import of construction materials and the changing share of equipment-installation work in the volume of construction could affect the comparability of the two indexes, the total effect does not appear to be such that a unit increase in the volume of construction should be accompanied by less than a unit increase in the index of construction materials if the supply of construction materials is to remain adequate. It should be noted, however, that the trend and directions of change in the ratios are more accurate than the specific ratio for any given year. A properly weighted time lag between production and construction would improve the meaning of the ratio for a given year, but information is not available for making such adjustments. The base year 1955 also was a year in which building materials were in short supply relative to the volume of construction.

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Sources:

1. Pravda, 26 Apr 63, p. 4. U.
2. State, Moscow. T 2776, 29 Apr 63. C.
3. Stroitel'naya gazeta, 22 Dec 61, p. 1. U.
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